

July 29, 2010

HOLD

Price	Target Price
Rs 878	Rs 875
Sensex	17,992

Price Performance

(%)	1M	3M	6M	12M
Absolute	14	(26)	(27)	(7)
Rel. to Sensex	12	(27)	(34)	(21)

Source: Bloomberg

Stock Details

Sector	Offshore Oil Field Services
Reuters	ABAN.BO
Bloomberg	ABAN@IN
Equity Capital (Rs mn)	87
Face Value (Rs)	2
No of shares o/s (mn)	43
52 Week H/L (Rs)	1,680/637
Market Cap (Rs bn/USD mn)	39/834
Daily Avg Vol (No of shares)	2909949
Daily Avg Turnover (US\$ mn)	49.4

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	52.9	52.9	52.9
FII/NRI	10.6	10.6	8.7
Institutions	14.5	14.5	15.8
Private Corp	4.0	4.0	4.3
Public	18.0	18.0	18.3

Source: Capitaline

Ajit Motwani

ajit.motwani@emkayglobal.com

+91 22 6612 1255

Jitesh Bhanot

jitesh.bhanot@emkayglobal.com

+ 91 22 6624 2491

- Aban's Q1FY11 APAT (ex profit from assoc) at Rs1.1 bn marginally below est. Reported loss of Rs1.43 bn on account of write offs on sunk rig Aban pearl.
- Revenue at Rs8.4 bn, though down 17.5% qoq were above estimates, driving higher than expected EBITDA at Rs5.2 bn (21.1% qoq).
- Settlement of insurance claim on sank rig Aban pearl worth USD235 mn brings some relief on balance sheet.
- We build in the settlement of claim in our number. Upgrade target price (to Rs875 earlier Rs800) to reflect the same. Maintain HOLD.

Note: The quarter includes two extraordinary items. 1) Rs 3.35 bn write off on account of loss of rig Aban Pearl which was reported sunk on May 13, 2010 2) Rs 0.13 bn on account of further write off in relation to Aban's Rs1.95 bn investment in Petrojack Drilling, a Norway Based drilling company that filed for bankruptcy early in CY10. Though we have taken the impact of these extraordinary items on Aban's networth, for the income statement we have treated this as extraordinary items and accounted for it below the line.

Topline at Rs8.42 bn –beats our estimates....

Aban's consolidated revenues for the quarter stood at Rs8.42 bn (+6.2% yoy, down 17.5% sequentially), better than our estimates. Sequential revenue decline led by Idle status of the rig - Aban Abraham which went off contract from April 2010 and sinking of rig - Aban Pearl in the month of May 2010.

....so does EBITDA at Rs5.2 bn

With no contribution from high margin contracts of Aban Abraham & Aban Pearl, EBITDA for the quarter stood at Rs5.2 bn (our expectation Rs4.9 bn) declined 21.1% qoq. EBITDA margins contracted 282 bps sequentially to 61.7%. Expect margins to stabilise at current levels for FY11E and decline in FY12E led by renewals of rig contracts at lower day rates in the parent company.

....however APAT (ex profit from assoc) at Rs1.1 bn marginally below est.

APAT ex profit from associates at Rs1.1 bn below our expectation (Rs1.25 bn), owing to the higher interest expense and tax outgo. APAT including profit from associates stood at Rs2.05 bn + 85.6% yoy down 26.6% qoq. Including exceptional items the company has reported a loss of Rs1.43 bn for the quarter. Also Aban's 50% associate Venture Drilling received USD 64 mn as early termination fees for its contract on Rig Deep Venture. The company seems to have booked proportionate income out of this and hence we expect the same to recur till Q3 FY11E.

Earnings outlook yet to improve – Maintain HOLD

With Aban receiving settlement of insurance claim on sank rig Aban pearl worth USD235 mn, and the expected reduction in debt, Aban's stretched balance sheet is expected to get some relief. We build in the settlement of claim in our number and upgrade target price (to Rs875 earlier Rs800) to reflect the same. As far as outlook on earnings is concerned, we believe that the continues idle status of drillship Aban Abraham & Deep Venture will push back Aban's earnings recovery thereby impacting Aban's cash flows & debt servicing capability. Maintain HOLD.

Key Financials

YE-	Net	EBITDA	EPS	EPS	RoE	EV/				
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	30501	17327	56.8	6920	77.3	-15.6	20.6	11.4	10.8	2.3
FY10P	33587	21004	62.5	5518	119.6	54.6	28.0	7.3	8.2	2.1
FY11E	38572	24007	62.2	5992	130.5	9.1	27.5	6.7	6.1	1.9
FY12E	38211	22214	58.1	4675	100.2	-23.2	17.5	8.8	6.1	1.5

Results Table

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11A	YoY (%)	QoQ (%)
Revenue	7,935	7,029	8,413	10,210	8,425	6.2	(17.5)
Expenditure	3,246	2,500	3,220	3,618	3,223	(0.7)	(10.9)
<i>as % of sales</i>	40.9	35.6	38.3	35.4	38.3		
Consumption of RM	382	266	387	265	333	(13.0)	25.7
<i>as % of sales</i>	4.8	3.8	4.6	2.6	3.9		
Employee Cost	736	544	737	866	884	20.2	2.1
<i>as % of sales</i>	9.3	7.7	8.8	8.5	10.5		
Other expenditure	2,128	1,690	2,096	2,487	2,006	(5.7)	(19.3)
<i>as % of sales</i>	26.8	24.0	24.9	24.4	23.8		
EBITDA	4,689	4,529	5,193	6,592	5,202	10.9	(21.1)
Depreciation	989	994	1,352	1,281	1,291	30.5	0.8
EBIT	3,700	3,535	3,841	5,312	3,911	5.7	(26.4)
Other Income	99	70	39	10	143	43.8	1,294.1
Interest	2364	2611	2599	2194	2272	(3.9)	3.5
PBT	1,435	995	1,281	3,127	1,783	24.2	(43.0)
Total Tax	608	711	711	541	678	11.5	25.2
Adjusted PAT	827	284	570	2,586	1,105	33.6	(57.3)
(Profit)/loss from JV's/Ass/MI	281.5	430.316	323.886	214.684	951.863	238.1	343.4
APAT after MI	1,108	714	894	2,801	2,057	85.6	(26.6)
Extra ordinary items	0	0	0	-2408	-3496		45.2
Reported PAT	1,108	714	894	393	(1,439)	(229.8)	(466.3)
Reported EPS	29.3	18.9	20.6	9.0	(33.1)	(212.8)	(466.3)

Margins (%)						(bps)	(bps)
EBIDTA	59.1	64.4	61.7	64.6	61.7	265.5	(281.9)
EBIT	46.6	50.3	45.7	52.0	46.4	(19.8)	(559.6)
EBT	18.1	14.2	15.2	30.6	21.2	307.5	(947.3)
PAT	10.4	4.0	6.8	25.3	13.1	269.3	(1,221.7)
Effective Tax rate	42.4	71.4	55.5	17.3	38.0	(435.1)	2,072.0

Financial

Income Statement

Y/E, Dec (Rs. m)	FY09	FY10P	FY11E	FY12E
Net Sales	30501	33587	38572	38211
Growth (%)	50.9	10.1	14.8	-0.9
Total Expenditure	13174	12583	14565	15998
Manpower Costs	3442	2863	3315	3641
Consumption of stores	1893	1300	1505	1653
Repairs & Rentals to machinery	1695.5	1088.7	1260.3	1384.2
Other Exps	6143	7331	8486	9320
EBIDTA	17327	21004	24007	22214
Growth (%)	64.5	21.2	14.3	-7.5
EBIDTA %	56.8	62.5	62.2	58.1
Depreciation	4501	4616	5718	5687
EBIT	12826	16388	18289	16527
EBIT margin (%)	42.1%	48.8%	47.4%	43.3%
Other income	4043	218	486	486
Interest	8553	9768	10572	9730
EBT	8316	6838	8203	7283
Tax	2508	2571	4279	3734
Effective tax rate (%)	30.2	37.6	52.2	51.3
Adjusted PAT	5808	4267	3924	3549
Growth (%)	1441.8	-26.5	-8.0	-9.6
Net Margin (%)	19.0	12.7	10.2	9.3
(Profit)/loss from JVs/Ass/MI	1113	1250	2068	1127
Adjusted PAT After JVs/Ass/MI	6920	5518	5992	4675
E/O items	-2167	2408.0	3422.8	0.0
Preference dividend	318.9	318.9	318.9	318.9
Reported PAT	9087	3110	2569	4675
Growth (%)	162.7	-65.8	-17.4	82.0

Balance Sheet

Y/E, Dec (Rs. m)	FY09	FY10P	FY11E	FY12E
Equity share capital	76	87	87	87
Preference Capital	3260	3260	3260	3260
Reserves & surplus	14105	18459	20551	24748
Networth	17440	21806	23898	28095
Minority Interest	8	0	0	0
Secured Loans	156082			
Unsecured Loans	10273			
Loan Funds	166355	141641	132775	122435
Net deferred tax	516	436	436	436
Total Liabilities	184318	163883	157108	150965
Gross Block	144113	173773	159307	159307
Less: Depreciation	15513	20128	25847	31534
Net block	128601	153645	133460	127773
CWIP (incl cap adv)	47003	0	0	0
Investment	5751	4951	4951	4951
Current Assets	17054	14629	33669	33514
Inventories	2275	2478	2944	2968
Sundry debtors	5766	7691	8974	8844
Cash & bank balance	5948	2360	19651	19601
Loans & advances	3065	2100	2100	2100
Other current assets				
Current Liab & Prov	14090	9341	14971	15272
Current liabilities	12742	7891	13521	13821
Provisions	1348	1450	1450	1450
Net current assets	2964	5288	18698	18242
Misc. exp				
Total Assets	184318	163883	157108	150966

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
PBT (Ex-Other income)	4273	6620	7717	6797
Depreciation	4501	4616	5718	5687
Interest Provided	8553	9768	10572	9730
Other Non-Cash items				
Chg in working cap				
Tax paid	2508	2571	4279	3734
Operating Cashflow	16589	-115	15592	10768
Capital expenditure	-53178	13944	11044	0
Free Cash Flow	-35948	14629	26636	10768
Other income	4043	218	486	486
Investments	640	800	0	0
Investing Cashflow	-52537	14744	11044	0
Equity Capital Raised	0	6975	0	0
Loans Taken / (Repaid)	35921	-24714	-8866	-10340
Interest Paid	8553	9768	10572	9730
Dividend paid (incl tax)	-478	-478	-478	-478
Income from investments				
Others				
Financing Cashflow	35443	-18217	-9344	-10818
Net chg in cash	-505	-3588	17291	-50
Opening cash position	6453	5948	2360	19651
Closing cash position	5948	2360	19651	19601

Key ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability (%)				
EBITDA Margin	56.8	62.5	62.2	58.1
Net Margin	19.0	12.7	10.2	9.3
ROCE	9.5	8.2	9.6	11.1
ROE	20.6	28.0	27.5	17.5
RoIC	10.9	9.9	10.3	12.8
Per Share Data (Rs)				
EPS	77.3	119.6	130.5	100.2
CEPS	236.5	281.1	340.7	231.0
BVPS	375.2	426.5	474.6	571.1
DPS	3.6	3.1	3.1	3.1
Valuations (x)				
PER	11.4	7.3	6.7	8.8
P/CEPS	3.7	3.1	2.6	3.8
P/BV	2.3	2.1	1.9	1.5
EV / Sales	6.2	5.1	3.8	3.6
EV / EBITDA	10.8	8.2	6.1	6.1
Dividend Yield (%)	0.4	0.4	0.4	0.4
Gearing Ratio (x)				
Net Debt/ Equity	11.1	7.4	5.4	4.1
Net Debt/EBIDTA	9.1	6.6	4.6	4.6
Working Cap Cycle (days)	-56.2	24.8	-15.2	-19.2

Recommendation History: Aban Offshore – ABAN IN

Date	Reports	Reco	CMP	Target
26.05.2010	Aban Offshore Q4FY10 Result Update	Hold	688	800
14.05.2010	Aban Offshore Event Update	UR	1,017	UR
29.01.2010	Aban Offshore Q3FY10 Result Update	Accumulate	1,130	1,325
27.10.2009	Aban Offshore Q2FY10 Result Update	Hold	1,381	1,503

Recent Research Reports

Date	Reports	Reco	CMP	Target
27.07.2010	IRB Infrastructure Q1FY11 Result Update	Accumulate	257	310
26.07.2010	Jaiprakash Associates Q1FY11 Result Update	Accumulate	129	150
23.07.2010	BHEL Q1FY11 Result Update	Hold	2,460	2,495
23.07.2010	Ambuja Cement Q2CY2010 Result Update	Hold	112	112

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.